B 1900-3

1978

Financial Analysis of a Group of Petroleum Companies

by **Richard S. Dobias** **Margaret A. O'Neil**

Energy Economics, December 1979

Companies Included in Study

Amerada Hess Corporation
Ashland Oil, Inc.
Atlantic Richfield Company
The British Petroleum Company Limited
Champlin Petroleum Company
Cities Service Company
Clark Oil & Refining Corporation
Compagnie Francaise des Petroles
Continental Oil Company
Exxon Corporation
Getty Oil Company
Gulf Oil Corporation
The Louisiana Land and Exploration Company
Marathon Oil Company
Mobil Oil Corporation
Murphy Oil Corporation
Petrofina Societe Anonyme
Phillips Petroleum Company
Royal Dutch/Shell Group of Companies
Standard Oil Company of California
Standard Oil Company (Indiana)
Sun Company, Inc.
The Superior Oil Company
Texaco Inc.
Tosco Corporation
Union Oil Company of California

This study is based on data secured from annual reports to stockholders and to the Securities and Exchange Commission and on information developed from other sources. Energy Economics of The Chase Manhattan Bank wishes to thank the companies and individuals who have cooperated in supplying special information and material used in this survey.

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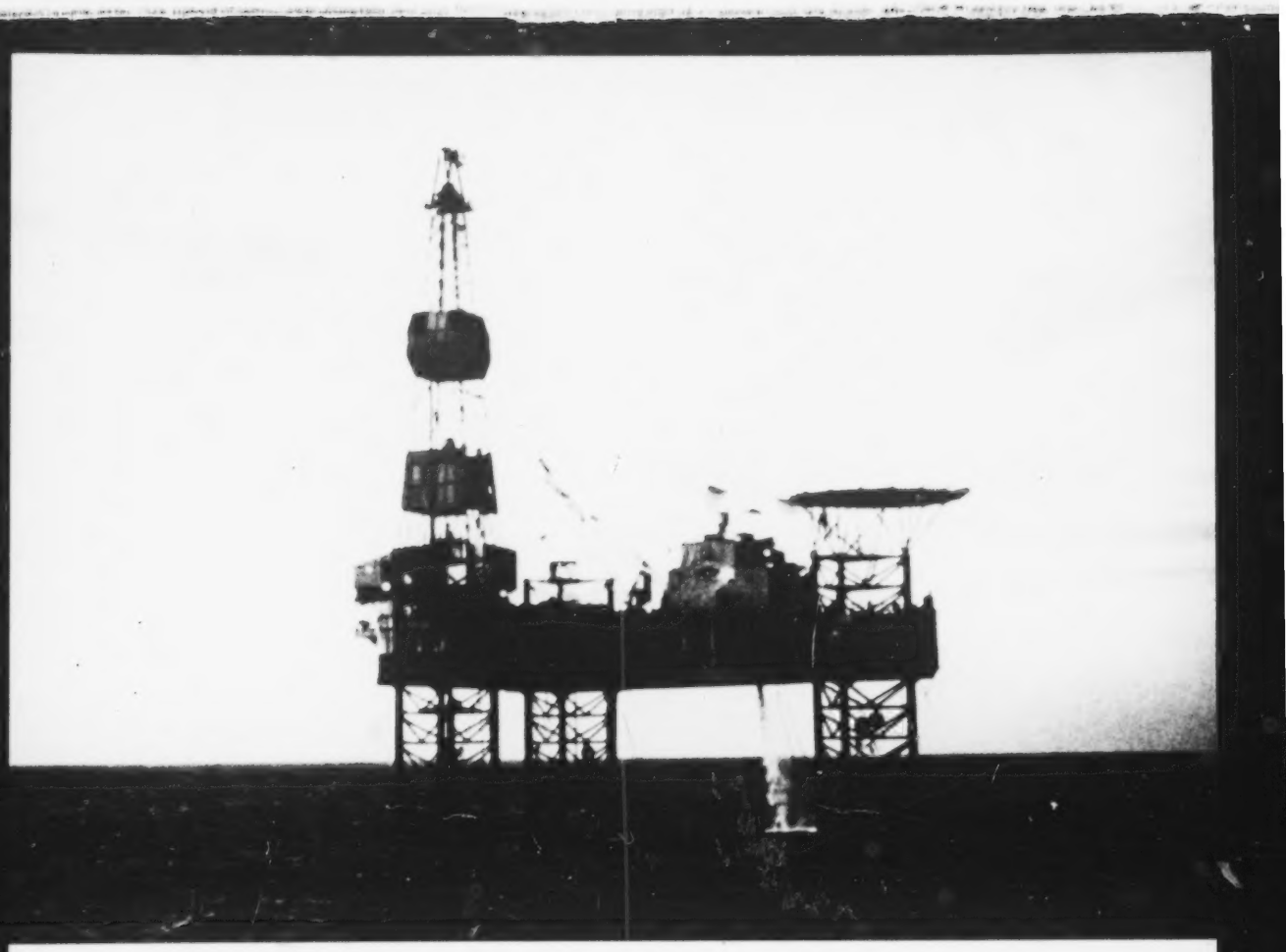


Foreword

For many years The Chase Manhattan Bank has conducted a detailed study of the financial performance of a large number of petroleum companies. Because the combined operations of these companies constitute a major proportion of the worldwide activities of the petroleum industry, their combined financial performance provides a valuable basis for determining the probable experience of the over-all industry.

As a service to the petroleum industry, and all others with a related interest, the Bank has published annually since 1945 the summarized results of this study.

The companies included in this study are the 26 organizations listed on the adjoining page. Throughout the report they are referred to collectively as the "Group." Over the years the number of companies comprising the Group has changed as a result of additions or mergers. Data for earlier years have been adjusted to reflect major additions and thereby permit valid comparisons of current developments with those of the past.

Source of Crude Oil

As a result of either nationalization or direct participation in petroleum activities by a number of oil producing countries in recent years, many petroleum companies now acquire a significant portion of their crude oil supply through contractual agreements with the governments of those nations. Therefore, the quantities of crude oil reported for the Group in this study include not only the Group's equity production, but also those volumes obtained from the governments of oil producing countries.

In 1978 the worldwide petroleum industry, exclusive of the Communist bloc, produced 46.6 million barrels of crude oil per day, practically the same quantity as in 1977. The Group's total volume, however, declined by 888 thousand barrels daily to 28.4 million, or about 61 percent of all the crude oil produced in the non-Communist world in 1978. A year earlier, the Group had access to 63 percent of the world's oil production, and in 1976 that proportion was two-thirds of the total.

The declining share of oil made available to the Group in the past few years is clear evidence of the dramatic changes that have taken place in crude oil ownership since the early part of this decade. For example, as recently as 1972 the Group accounted for four-fifths of all the oil produced and, except for the royalty portion, essentially all of it was equity production. However, in 1978 only about 57 percent of the 28.4 million barrels per day utilized by the Group was equity oil. The remaining 43 percent was acquired from the governments of oil producing nations.

The most significant reduction in crude oil supply in 1978 occurred in the Middle East. Although overall production of 21.1 million barrels per day was 1 million barrels a day lower than in 1977, the Group's supply from that area was reduced by 1.6 million barrels daily to 14.4 million. That was the lowest volume of crude oil supplied to the Group from the Middle East since 1970. The Group also recorded a decline from Africa of 120 thousand barrels per day to a

level of 2.7 million, or about 45 percent of the total crude oil output in that area.

Partially offsetting those reductions were significant production gains in the United States and Europe. In the United States, the Group's crude supply was improved by 525 thousand barrels per day and reached an average daily rate of 6.2 million barrels, approximately the same level as in 1974. The gain reflected the first full year of crude oil production flowing from the North Slope of Alaska, which initially commenced around mid-1977. The infusion of the new Alaskan oil, however, was not sufficient to restore the Group's production in the United States to the record high of 6.8 million barrels daily achieved in 1970, after which year-to-year production declines were recorded through 1976. Continuing development of North Sea crude oil reserves by the Group resulted in an increase of 255 thousand barrels per day in Europe to an average daily level of 1.2 million barrels. That amount represented approximately 71 percent of all the oil produced in Europe during 1978.

In the remaining areas — Canada, Venezuela, Other Western Hemisphere and the Far East — the change in crude oil supply to the Group from 1977 levels was relatively small. As a proportion of the total crude output in each of those sectors, the Group's volumes accounted for 78 percent, 46 percent, 17 percent and 51 percent, respectively.

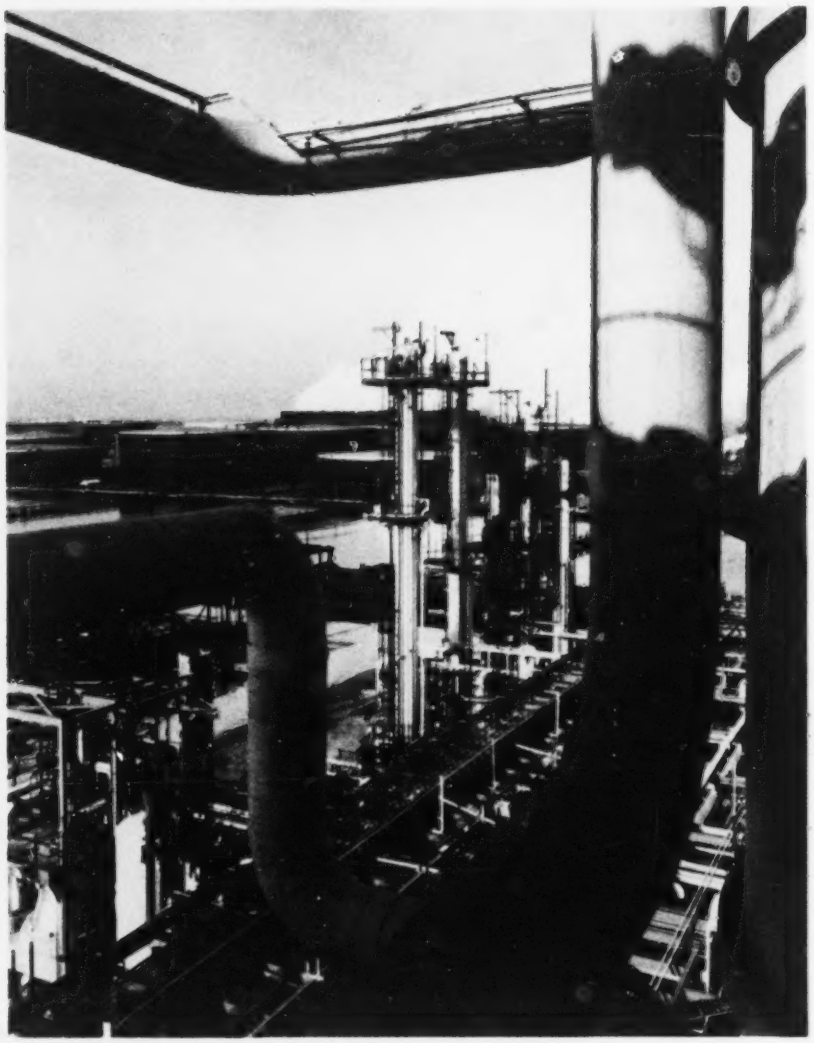
Crude Runs to Stills

Although the worldwide demand for oil in 1978 climbed by some 3 percent and crude runs rose by about the same rate, the quantity of crude oil processed by the Group declined slightly by 83 thousand barrels per day to 27.4 million. At that level the Group accounted for approximately 57 percent of the crude oil intake in the non-Communist world, down somewhat from 59 percent in 1977.

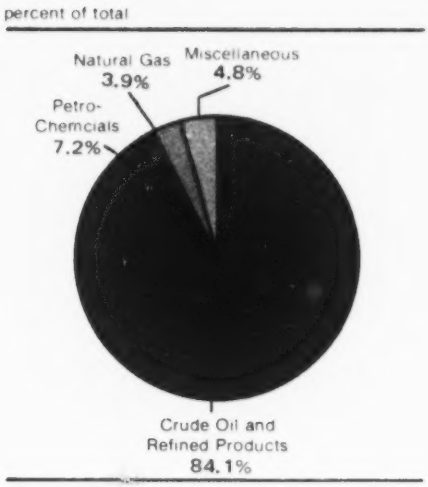
The United States and Europe together accounted for nearly three-quarters of the Group's 1978 crude runs, but those two areas registered the smallest proportionate change from the year before. After surging in 1977 to 12.1 million barrels a day, the Group's refinery crude oil input in the United States during 1978 was virtually unchanged,

increasing by only one-tenth of 1 percent. And in Europe, the change was limited to a fractional decline of four-tenths of 1 percent from the previous year to 8.2 million barrels daily.

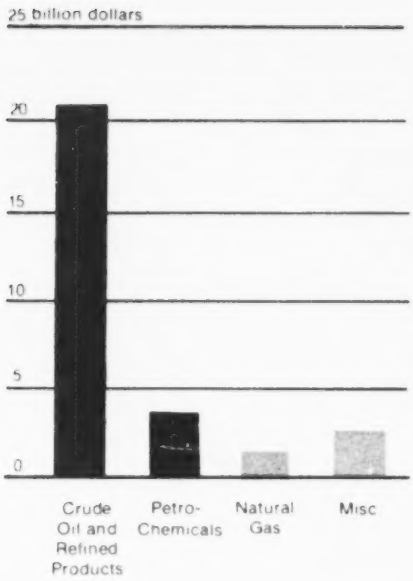
Another 10 percent of the Group's crude input was refined in the Far East. In 1978 that area registered the largest increase of any sector, 105 thousand barrels per day, to 2.9 million barrels. On the other hand, the Middle East, with only 2 percent of the total, or 552 thousand barrels a day, recorded the greatest drop, 91 thousand barrels daily. The variation from 1977 levels in Canada, Other Western Hemisphere and Africa were by comparison less significant.



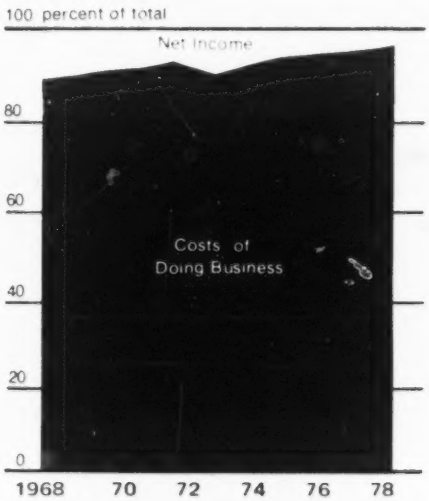
SOURCES OF REVENUE— 1978



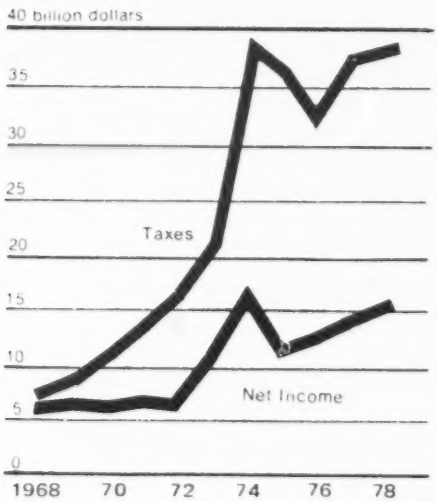
REVENUE INCREASES IN 1978



COSTS, DIRECT TAXES AND NET INCOME AS PERCENT OF GROSS OPERATING REVENUE



NET INCOME IN RELATION TO TAXES



Income Statement

Revenue

The Group's gross operating revenue in 1978 rose by $28.8 billion to a level of $341.1 billion, 9.2 percent more than the prior year.

The revenue derived from the sale of crude oil and refined products — $286.9 billion — represented 84 percent of the total. Proceeds from the sale of chemical products accounted for 7.2 percent of the operating revenue and totaled $24.4 billion. Primarily because of government regulation, the revenues generated historically from the sale of natural gas have represented a very small proportion of the overall total. In 1978, despite moderate price increases during the year, the $13.2 billion of natural gas sales still amounted to no more than 3.9 percent of the Group's total operating revenue. Another $16.6 billion in receipts, or 4.8 percent of the entire amount, was derived from miscellaneous other operating activities.

From other sources such as dividends, interest and equity in the earnings of affiliated companies, the Group also received $5.8 billion in non-operating revenue. Total revenue, therefore, from both operating and non-operating activities amounted to $346.9 billion, 9.2 percent more than in 1977.

Charges Against Revenue

Although total revenue in 1978 rose by 9.2 percent, the overall charges against revenue increased by a slightly higher rate, 9.5 percent. Except for an insignificant decline in one category, gains were recorded in every other expense classification.

Rising by nearly $30 billion over 1977, operating costs totaled $270.3 billion. At that level they absorbed 77.9 percent of the total revenue, the same proportion as in 1977 when that percentage reached an all-time high.

Following a substantial increase in taxes during the previous year, the Group's tax outlay in 1978 continued to rise despite a fractional drop in income taxes. Income taxes were reduced to $28 billion from $28.1 billion in 1977, a

decline of four-tenths of 1 percent. However, other taxes levied directly on the Group appreciated considerably, growing in excess of $1.8 billion to a record level of $11.8 billion. In total, therefore, the Group's taxes amounted to $39.8 billion, $1.7 billion higher than a year earlier. That tax bill equates to more than two and a half times the net income earned by the Group during the year. The tax figures cited in this report do not include consumer sales and excise taxes on petroleum products, for which the Group acts only as a collecting agent for government. Those taxes are imposed on the consumers, not the companies and, therefore, are excluded from the reported revenue and taxes in this study.

Rising by almost 28 percent, interest costs in 1978 grew at a higher rate than any other major item on the income statement. In fact, in recent years the Group's interest payments have risen quite dramatically. In 1973 they rose to a record $2 billion, in 1976 they topped $3 billion for the first time, in 1977 they nearly reached $4 billion, and in 1978 interest expense totaled $5.1 billion. That rapid upsurge in interest costs stems from the large increase in debt incurred by the Group in recent times.

As a result of the sizeable escalation in capital expenditures by the Group over the years, capital recovery provisions such as depreciation, depletion and amortization also continued to grow steadily. In 1978 those write-offs amounted to $15.6 billion, up from $13 billion in the prior year.

Altogether the charges against revenue reached a sum of $331.9 billion, or 95.7 percent of the total revenue.

Net Income

After all the expenses and other charges were provided for, the remaining funds — $15 billion — was the Group's net income for 1978. That amount was 4.4 percent greater than the $14.4 billion in profits recorded the year before. As a proportion of total revenue, the $15 billion earned in 1978 represented only 4.3 percent, the lowest in the Group's history.

The following table contains a comparison of the Group's net income for 1978 and 1977 in the United States as well as the rest of the world.

Net Income

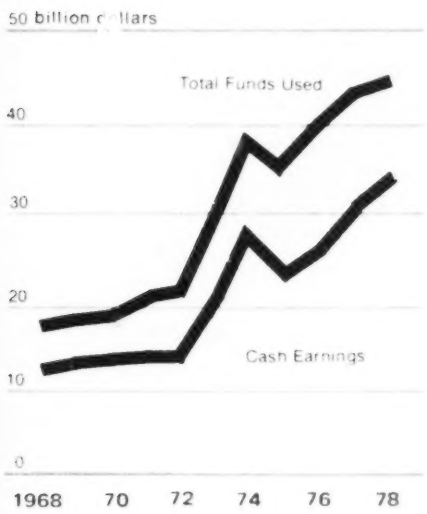
	1978	1977	Change	
	Million Dollars		Mill.$	Percent
United States	8,336	7,795	+ 541	+6.9
Rest of World	6,681	6,585	+ 96	+1.5
Total	15,017	14,380	+ 637	+4.4

As indicated in the table, most of the earnings improvement occurred in the United States. However, because the magnitude of the total earnings gain was so small, the proportion of the Group's worldwide earnings attributable to the United States rose to only 55 percent, from 54 percent in 1977.

Rate of Return

The insignificant rise in earnings during 1978, coupled with a substantial increase in investment, caused a decline in the Group's worldwide rate of return on average invested capital to 13.2 percent, down from the 1977 level of 13.8 percent. In the United States the return dropped from 14.2 percent a year ago to 13.8 percent. Outside the United States, the rate of return was reduced by nearly one full percentage point, slipping to 12.5 percent from 13.4 in 1977.

CASH EARNINGS COMPARED TO TOTAL FUNDS USED



RETURN ON AVERAGE INVESTED CAPITAL

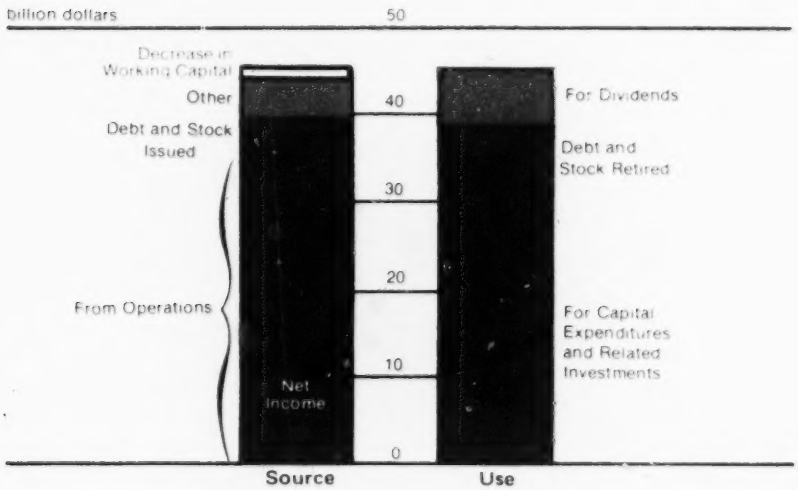
Source and Use of Funds

Sources

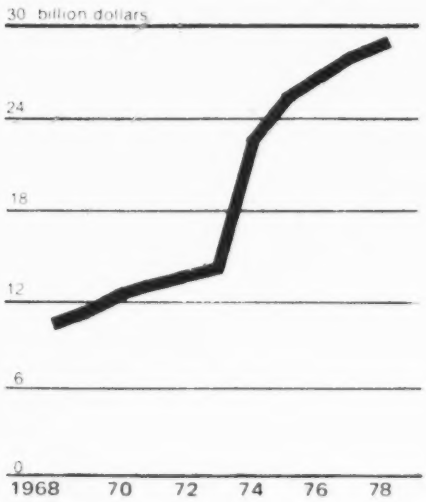
During 1978 the Group had available a sum of $44.8 billion — $1.7 billion more than in the previous year — to invest in property, plant and equipment, to repay debt obligations and pay dividends. One-third of the funds was derived from net income, about the same proportion as in the three prior years. The contribution from the recovery of capital, primarily depreciation, depletion and amortization, rose to 35 percent from 30 percent in 1977. Other various sources of cash earnings provided 8 percent, 2 percentage points more than a year earlier. Altogether, these internally generated funds were the source of nearly 77 percent of all the funds available to the Group in 1978, up from just over 69 percent the year before.

As a supplementary source of funds, the Group turned to the capital markets for $5.2 billion, nearly all of which was long-term debt. The borrowed funds in 1978, however, were considerably lower than in the three years immediately preceding, when the Group's new debt issues were strongly affected by the need to finance the construction of the Trans Alaska Pipeline System. Asset sales and other

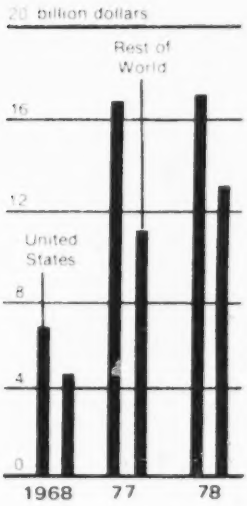
SOURCE AND USE OF FUNDS IN 1978



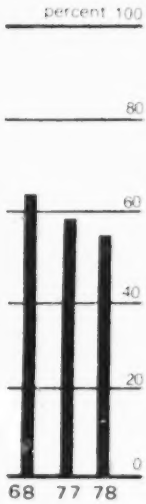
GROUP'S CAPITAL EXPENDITURES



UNITED STATES AND REST OF WORLD

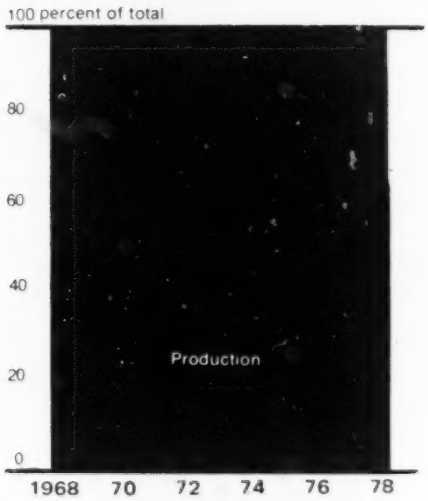


UNITED STATES SHARE



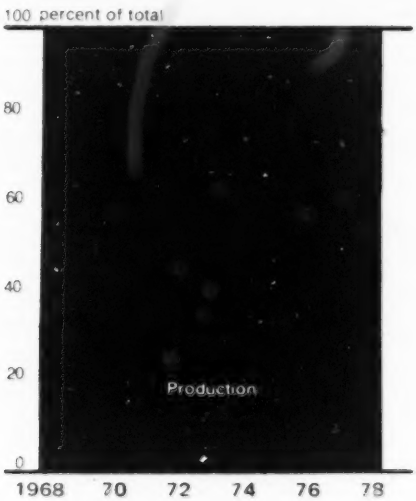
GROUP'S CAPITAL EXPENDITURES

United States



GROUP'S CAPITAL EXPENDITURES

Rest of World



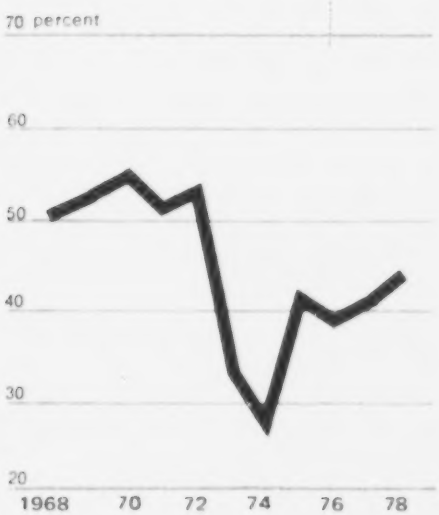
miscellaneous transactions were the source of another $5.3 billion dollars, $1.7 billion more than in 1977.

Uses

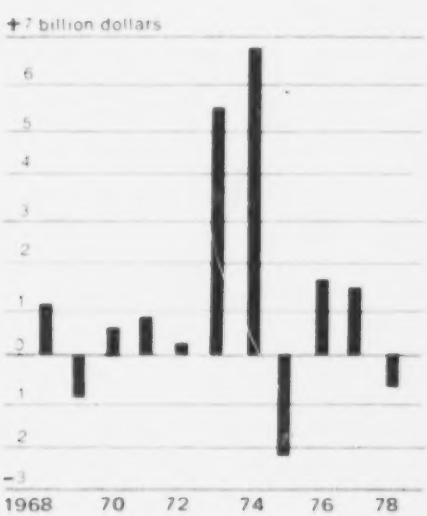
The Group's worldwide capital expenditures in 1978 increased by $1.9 billion to a total of $29.9 billion. At that level they were equal to twice the amount of the Group's net income during the year. The increase in capital investments applied to all segments except transportation.

More than three-fifths of the total outlay was allocated for finding and developing more sources of oil and gas. Those production expenditures amounted to $18.6 billion, $2.4 billion more than in 1977. In the transportation category, vastly reduced capital spending for pipeline and marine facilities was responsible for the decline in investments to $1.1 billion from $2.8 billion a year earlier. Rising by $514 million in 1978, expenditures for manufacturing activities such as refineries and chemical plants reached a record $5.7 billion. Since 1971, and continuing through 1976, the Group's new investments for marketing purposes registered year-to-year declines. A reversal of that trend occurred in 1977 which continued in 1978 as marketing expenditures rose by $441 million to $2.2 billion. The Group also spent $2.3 billion for various other investments

DIVIDENDS AS A PERCENT OF NET INCOME



CHANGE IN WORKING CAPITAL



that included administrative needs, coal, nuclear and oil shale.

Accounting for well over one-half the Group's 1978 worldwide total, capital expenditures in the United States rose by $182 million to $16.8 billion, despite a decline of nearly $1.4 billion in the transportation segment. The table below contains a comparison of the investments by function in the United States during 1978 and 1977.

United States Expenditures

	1978	1977	Change	
	Million Dollars		Mill $	Percent
Production	10,353	9,000	+1,353	+15.0
Transportation	754	2,109	-1,355	-64.2
Refineries and Chemical Plants	3,395	3,328	+ 67	+ 2.0
Marketing	740	650	+ 90	+13.8
Other	1,561	1,534	+ 27	+ 1.8
Total	16,803	16,621	+ 182	+ 1.1

Although the Group's total expenditures in the United States for 1978 grew only slightly, the investment for production purposes registered a substantial gain of almost $1.4 billion and reached a level of nearly $10.4 billion, the highest ever recorded. Those production expenditures were significantly larger than the outlays for production in all the rest of the world. They also accounted for over three-fifths of the Group's investments in the United States for all purposes during 1978.

The large increase in production expenditures was totally offset by a decrease in the capital expended in the transportation segment. Transportation investments totaled $754 million, a reduction of close to $1.4 billion. That large decline was primarily a reflection of the completion of the Trans Alaska Pipeline System in mid-1977. Rising slightly over the prior year, new investments of $3.4 billion for manufacturing facilities were the second highest on record for an individual year. For marketing, capital outlays rose by $90 million to $740 million, the highest since 1973.

The Group's 1978 capital investment program outside the United States also reflected gains in all segments except transportation.

Rest of World Expenditures

	1978	1977	Change	
	Million Dollars		Mill.$	Percent
Production	8,249	7,239	+ 1,010	+14.0
Transportation	382	732	- 350	-47.8
Refineries and Chemical Plants	2,311	1,864	+ 447	+24.0
Marketing	1,457	1,106	+ 351	+31.7
Other	691	439	+ 252	+57.4
Total	13,090	11,380	+ 1,710	+15.0

As in the United States, the Group's production expenditures in the rest of the world reached an all-time high during 1978. Amounting to $8.2 billion, those outlays, which are associated with finding and developing more sources of petroleum, increased by $1 billion over the year before. Whereas the large decline in transportation investments in the United States was due primarily to pipelines, in the rest of the world the reduction was caused entirely by a drop in funds allocated for marine equipment. Undoubtedly, the decrease was a reflection of the on-going oversupply of tankers. The new investments for processing plants grew by a substantial 24 percent to $2.3 billion, the highest ever recorded by the Group for a single year outside the United States. The capital invested for marketing facilities also reached an all-time high; those expenditures totaled nearly $1.5 billion, $351 million more than in 1977.

The dividends received by the shareholders in 1978 from the Group's activities amounted to $6.7 billion. At that level they represented 45 percent of net income for the year, up from 41 percent in 1977 when they totaled $5.9 billion.

As a consequence of the growth in the Group's reliance on borrowed capital over the years, the amount of funds required to repay those debt obligations has been rising steadily in more recent years. That upward direction continued in 1978 as the repayment of long-term debt amounted to $6.8 billion, up from $5.9 billion a year earlier. The Group also applied $1.6 billion toward investments and advances to associated companies.

In summary, the various sources of funds provided the Group with $44.8 billion, but the funds utilized amounted to $45.5 billion. The deficit of $679 million was made up by drawing down on working capital.

Balance Sheet

Working Capital

After rising significantly for the past two years, the Group's working capital at the end of 1978 was reduced slightly, as indicated in this table:

Working Capital

	12/31/78	12/31/77	Change	
	Million Dollars		Mill.$	Percent
Current Assets	107,416	99,149	+ 8,267	+ 8.3
Current Liabilities	80,691	71,745	+ 8,946	+12.5
Working Capital	26,725	27,404	- 679	- 2.5
Current Ratio	1.33	1.38	-	-

Rising by $5.1 billion to $47.5 billion, accounts receivable registered the largest gain in current assets. Cash and marketable securities totaled $24.5 billion, $4 billion more than at year-end 1977. That increase was comprised of a $3.6 billion gain in cash and a $453 million rise in marketable securities. Inventories, however, declined by $881 million to a level of $34.1 billion.

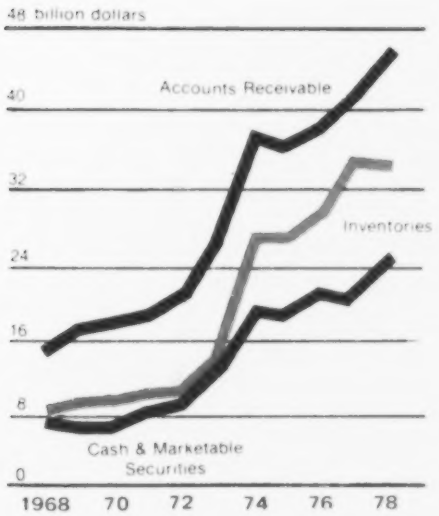
Accounting for more than one-half of the addition to current liabilities, accounts payable rose by $5.1 billion to $49.7 billion. The other major increase in current liabilities — $2.5 billion — occurred in the taxes payable category, which grew to $11.6 billion at the end of 1978.

Because the increase in curent liabilities was greater than the gain in current assets, the Group's current ratio dropped from 1.38 a year earlier to 1.33 at the close of 1978, the lowest on record.

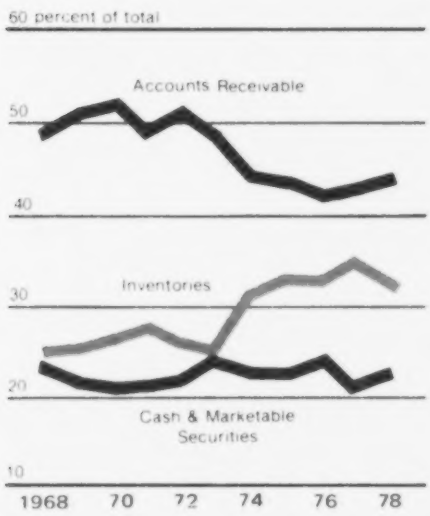
Capital Employed

The capital employed at the end of 1978 amounted to $166.1 billion, $11.5 billion more than a year earlier. Nearly three-quarters of that gain was registered in the Group's invested capital, primarily because the major portion of the earnings in 1978 was reinvested. In contrast to the past few years, the increase in long-term debt — $731 million — was relatively small. Thus, long-term debt as a proportion of

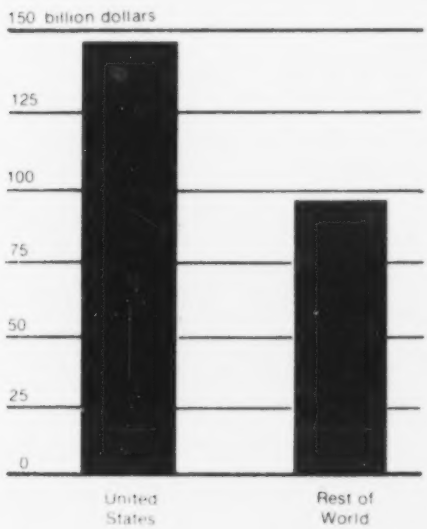
CURRENT ASSETS . . .



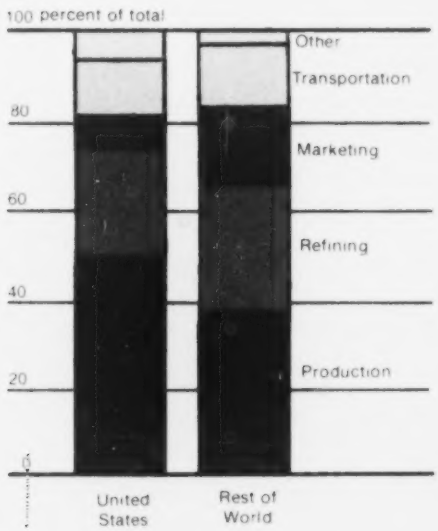
DISTRIBUTION OF CURRENT ASSETS



GROSS INVESTMENT IN FIXED ASSETS AT END OF 1978 . . .



BY DEPARTMENT



total capital employed declined to 24.5 percent from 25.8 percent at the end of 1977. A breakdown of the capital employed is contained in the table below.

Capital Employed

	12/31/78	12/31/77	Change	
	Million	Dollars	Mill.$	Percent
Long-Term Debt	40,645	39,914	+ 731	+ 1.8
Minority Interests	7,035	4,676	+ 2,359	+50.4
Invested Capital	118,420	109,999	+ 8,421	+ 7.7
Total Capital Employed	166,100	154,589	+11,511	+ 7.4

Long-term lease arrangements and production payments are not included in the long-term debt category, but could be regarded as such. If they were, the Group's debt as a proportion of capital employed would be 33 percent.

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31 Working Capital

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Photographs used in this study were furnished through the courtesy of Exxon Corporation and Mobil Oil Corporation.

SECTION ONE — HISTORICAL DATA

A Income Statement

	1967	1968	1969	1970
	Million Dollars			
Total Revenue	66,553	72,092	77,947	86,125
Deductions:				
Operating Costs and Other Expenses	48,596	52,316	56,784	62,615
Taxes Other Than Income Taxes	2,566	2,845	3,610	4,473
Write-offs	5,464	5,835	6,084	6,636
Income Taxes	3,779	4,432	4,767	5,763
Total Deductions	60,405	65,428	71,245	79,487
Net Income — Worldwide	6,148	6,664	6,702	6,638
United States	3,727	3,913	3,774	3,609
Rest of World	2,421	2,751	2,928	3,029

B Rates of Return *

Average Invested Capital — Worldwide	11.5	11.7	11.0	10.4
United States	12.6	12.3	10.9	9.9
Rest of World	10.1	11.0	11.2	11.0
Average Borrowed and Invested Capital	10.6	10.8	10.4	9.9
Average Total Assets	7.5	7.4	6.8	6.2
Average Gross Fixed Assets	15.5	15.9	15.1	15.4

*See page 28 for components included in rates of return calculations.

C Source and Use of Working Capital

Funds Available From:				
Cash Earnings (a)	11,911	13,102	13,482	13,823
Long-Term Debt and Stock Issued	3,147	4,245	3,801	4,571
Sale of Assets and Other Transactions	455	702	788	1,067
Total	15,513	18,049	18,071	19,461
Funds Used For:				
Capital Expenditures	10,121	11,314	11,560	12,025
Investments and Advances	549	887	1,289	804
Dividends	3,193	3,468	3,730	3,790
Long-Term Debt and Stock Retired	932	1,268	2,305	2,191
Total	14,795	16,937	18,884	18,810
Change in Working Capital	+ 718	+1,112	- 813	+ 651

(a) Represents Net Income, Writeoffs and Other Non-Cash Charges.

1971	1972	1973	1974	1975	1976	1977	1978
			Million Dollars				
97,860	106,278	133,909	244,535	245,204	275,908	317,520	346,880
70,690	76,465	92,756	178,438	185,707	217,800	252,068	276,456
4,413	5,138	6,241	7,214	9,137	8,516	9,986	11,841
7,079	7,514	8,345	10,133	11,187	11,230	12,982	15,570
8,409	10,301	14,889	32,379	27,663	25,263	28,104	27,996
90,591	99,418	122,231	228,164	233,694	262,809	303,140	331,863
7,269	6,860	11,678	16,371	11,510	13,099	14,380	15,017
3,490	3,656	4,134	6,401	5,978	7,535	7,795	8,336
3,779	3,204	7,544	9,970	5,532	5,564	6,585	6,681
10.7	9.7	15.5	19.2	12.8	13.8	13.8	13.2
9.3	9.6	10.5	14.6	12.9	15.2	14.2	13.8
12.5	9.9	20.9	23.9	12.7	12.3	13.4	12.5
10.1	9.4	14.0	17.3	12.0	12.9	13.0	13.1
6.3	5.5	8.6	10.0	6.1	6.6	6.4	6.1
17.4	18.6	24.6	37.6	30.0	28.0	27.8	25.8
14,775	14,801	21,230	28,836	23,570	26,767	29,964	34,322
5,163	4,698	4,813	6,394	10,305	10,526	8,768	5,241
885	1,860	2,867	4,372	1,167	2,713	4,415	5,252
20,823	21,359	28,910	39,602	35,042	40,006	43,147	44,815
12,921	13,190	14,637	22,902	25,048	26,826	28,001	29,893
992	763	382	914	1,744	832	1,523	1,567
3,922	3,860	4,122	4,772	4,947	5,346	6,158	6,953
2,100	3,330	4,268	4,226	5,435	5,313	6,053	7,081
19,935	21,143	23,409	32,814	37,174	38,317	41,735	45,494
+ 888	+ 216	+ 5,501	+ 6,788	- 2,132	+ 1,689	+ 1,412	- 679

D Expenditures for Fixed Assets

	1967	1968	1969	1970
	Million Dollars			
United States:				
Crude Oil and Natural Gas (a)	2,862	3,736	3,399	2,821
Natural Gas Liquids Plants	244	205	198	189
Pipe Lines	190	158	146	292
Marine	27	33	96	79
Other Transportation	55	65	64	56
Refineries and Chemical Plants	1,362	1,346	1,368	1,509
Marketing	1,126	1,058	1,138	1,319
Other	340	316	338	372
Total	6,206	6,917	6,747	6,637
Rest of World:				
Crude Oil and Natural Gas (a)	1,345	1,438	1,633	1,578
Natural Gas Liquids Plants	37	181	147	187
Pipe Lines	77	86	65	53
Marine	225	426	513	502
Other Transportation	3	4	4	3
Refineries and Chemical Plants	1,205	1,216	1,340	1,673
Marketing	901	928	1,018	1,194
Other	122	118	93	198
Total	3,915	4,397	4,813	5,388

(a) Excludes exploration expenses and lease rentals charged to income account.

E Balance Sheet

Current Assets	28,835	31,690	33,506	36,501
Property, Plant and Equipment (Net)	51,469	57,275	62,179	66,703
Other Assets	7,898	9,201	10,943	11,763
Total Assets	88,202	98,166	106,628	114,967
Current Liabilities	16,743	18,486	21,115	23,459
Long-Term Debt	11,210	13,991	15,597	17,742
Other Liabilities	2,580	4,297	4,765	5,145
Minority Interests	2,294	2,554	2,689	2,845
Shareholders' Equity	55,375	58,838	62,462	65,776
Total Liabilities & Net Worth	88,202	98,166	106,628	114,967
Working Capital	12,092	13,204	12,391	13,042
Current Ratio	1.7	1.7	1.6	1.6
Debt to Total Capital Employed (percent)	16.3	18.6	19.3	20.5

1971	1972	1973	1974	1975	1976	1977	1978
			Million Dollars				
2,510	3,842	4,729	8,142	6,205	7,708	8,762	10,066
156	115	120	183	243	251	238	287
275	193	240	1,282	3,300	3,327	1,537	338
97	58	86	73	144	190	444	182
76	53	63	74	85	148	128	234
1,430	1,212	1,269	2,382	3,014	3,659	3,328	3,395
1,322	1,001	744	541	574	512	650	740
399	337	350	733	845	869	1,534	1,561
6,265	6,811	7,601	13,410	14,410	16,664	16,621	16,803
1,917	2,088	2,564	4,576	5,957	6,265	6,935	8,012
175	114	76	139	132	196	304	237
151	118	90	85	73	22	48	48
735	826	1,463	1,672	1,319	883	679	319
7	6	9	13	25	8	5	15
2,180	1,819	1,573	1,895	1,957	1,646	1,864	2,311
1,348	1,222	1,079	947	891	921	1,106	1,457
143	186	182	165	284	221	439	691
6,656	6,379	7,036	9,492	10,638	10,162	11,380	13,090
39,586	42,686	56,149	86,889	84,361	92,598	99,149	107,416
71,740	75,097	79,613	91,169	99,027	110,493	128,555	147,147
13,573	14,400	14,654	15,189	18,178	19,056	21,044	20,727
124,899	132,183	150,416	193,247	201,566	222,147	248,748	275,290
25,656	28,540	36,502	60,454	60,058	66,606	71,745	80,691
20,523	21,858	22,727	25,591	30,645	36,249	39,914	40,645
5,882	6,998	8,532	11,394	13,989	16,671	22,414	28,499
2,941	3,031	3,274	4,068	3,701	3,916	4,676	7,035
69,897	71,756	79,381	91,740	93,173	98,705	109,999	118,420
124,899	132,183	150,416	193,247	201,566	222,147	248,748	275,290
13,930	14,146	19,647	26,435	24,303	25,992	27,404	26,725
1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.3
22.0	22.6	21.6	21.1	24.0	26.1	25.8	24.5

SECTION TWO — CURRENT DATA

1 Source of Crude Oil

	1978	1977	Change TBD	Change Percent
	Thousand Barrels Per Day			
United States	6,193	5,668	+ 525	+ 9.3
Canada	1,033	1,039	— 6	— 0.6
Venezuela	986	974	+ 12	+ 1.2
Other Western Hemisphere	440	393	+ 47	+ 12.0
Western Hemisphere	8,652	8,074	+ 578	+ 7.2
Europe	1,232	977	+ 255	+ 26.1
Africa	2,733	2,853	— 120	— 4.2
Middle East	14,374	15,987	—1613	— 10.1
Far East	1,431	1,419	+ 12	+ 0.8
Eastern Hemisphere	19,770	21,236	—1466	— 6.9
Total World-wide (a)	28,422	29,310	— 888	— 3.0

Note: The above figures include 100% of operations of companies and consolidated subsidiaries and equity in foreign operations of non-consolidated affiliates based on percentage of stock ownership, plus purchases from governments.

(a) Figures expressed in million barrels are as follows:

	1978	1977
United States	2,260	2,069
Other Countries	8,114	8,629
Total	10,374	10,698

2 Crude Runs To Stills

	1978	1977	Change TBD	Change Percent
	Thousand Barrels Per Day			
United States	12,149	12,134	+ 15	+ 0.1
Canada	1,486	1,536	— 50	— 3.3
Venezuela	0	0	0	0.0
Other Western Hemisphere	1,727	1,756	— 29	— 1.7
Western Hemisphere	15,362	15,426	— 64	— 0.4
Europe	8,234	8,270	— 36	— 0.4
Africa	383	380	+ 3	+ 0.8
Middle East	552	643	— 91	— 14.2
Far East	2,860	2,755	+105	+ 3.8
Eastern Hemisphere	12,029	12,048	— 19	— 0.2
Total World-wide (a)	27,391	27,474	— 83	— 0.3

Note: The above figures include 100% of operations of companies and consolidated subsidiaries and equity in foreign operations of non-consolidated affiliates based on percentage of stock ownership.

(a) Figures expressed in million barrels are as follows:

	1978	1977
United States	4,434	4,429
Other Countries	5,564	5,599
Total	9,998	10,028

3 Income Statement

	1978	1977	Percent Change
	Million Dollars		
Gross Operating Revenue	341,087	312,277	+ 9.2
Non-Operating Revenue	5,793	5,243	+ 10.5
Total Revenue	346,880	317,520	+ 9.2
Operating Costs and Expenses	270,317	247,396	+ 9.3
Taxes Other than Income Taxes (a)	11,841	9,986	+ 18.6
Write-offs	15,570	12,982	+ 19.9
Interest Expense	5,074	3,975	+ 27.6
Other Charges	101	26	+288.5
Total Deductions	302,903	274,365	+ 10.4
Net Income before Income Taxes	43,977	43,155	+ 1.9
Estimated Income Taxes	27,996	28,104	— 0.4
Income Applicable to Minority Interests	964	671	+ 43.7
Net Income (b) (c)	15,017	14,380	+ 4.4

(a) Excludes $40,163 million in 1978 and $31,461 million in 1977 representing sales and excise taxes on gasoline and other refined products, which are collected from customers and accounted for to United States federal, state and city authorities, and to other governments. Such taxes are deducted before arriving at gross operating revenue.

(b) Excludes $212 million of extraordinary profit in 1978 and $97 million in 1977.

(c) Includes earnings from operations outside U.S.: 1978 — $6,681 million and 1977 — $6,585 million.

4 Distribution of Total Revenue Dollar

	1978	1977
	Cents	
Operating Costs and Expenses	77.9	77.9
Write-offs	4.5	4.1
Interest	1.5	1.3
All Taxes	11.5	12.0
Income Applicable to Minority Interests	0.3	0.2
Dividends to Stockholders	1.9	1.9
Reinvested in Business	2.4	2.6
Total Revenue	100.0	100.0

5 Rates of Return

	1978	1977
	Million Dollars	
Average Borrowed and Invested Capital (a)	160,512	146,579
Earnings (b)	21,055	19,026
Return	13.1%	13.0%
Average Invested Capital (c)	113,988	104,067
Earnings (d)	15,017	14,380
Return	13.2%	13.8%
Average Total Assets	263,685	235,758
Earnings (e)	15,981	15,051
Return	6.1%	6.4%
Average Gross Fixed Assets	228,727	197,496
Gross Operating Profit (f)	58,929	54,895
Return	25.8%	27.8%

(a) Includes long-term debt, preferred stock, common stock, surplus and equity of minority interests.

(b) Represents net income plus interest charges and income applicable to minority interests.

(c) Includes preferred stock, common stock and surplus.

(d) Represents net income.

(e) Represents net income plus income applicable to minority interests.

(f) Represents gross operating revenue less operating costs and expenses and taxes — other than income taxes.

6 Source and Use of Working Capital Year 1978

	Million Dollars	Percent Distribution
Funds Available From:		
Cash Earnings (a)	34,322	76.6
Long-Term Debt Issued	5,150	11.5
Preferred and Common Stock Issued	91	0.2
Sales of Assets and Other Transactions	5,252	11.7
Total	44,815	100.0
Funds Used For:		
Capital Expenditures	29,893	66.7
Investments and Advances	1,567	3.5
Dividends to Companies' Shareholders	6,689	14.9
Dividends to Minority Interests	264	0.6
Long-Term Debt Repaid	6,776	15.1
Preferred and Common Stock Retired	305	0.7
Total	45,494	101.5
Change in Working Capital	— 679	— 1.5

(a) Represents:

	Million Dollars
Net Income	15,017
Write-offs	15,570
Other Non-Cash Charges (net)	3,735
Cash Earnings	34,322

7 Expenditures for Fixed Assets Year 1978

By Function –	United States	Other Countries	Combined
	Million Dollars		
Production:			
Crude Oil and Natural Gas (a)	10,066	8,012	18,078
Natural Gas Liquids Plants	287	237	524
Total	10,353	8,249	18,602
Transportation:			
Pipe Lines	338	48	386
Marine	182	319	501
Other	234	15	249
Total	754	382	1,136
Refineries and Chemical Plants	3,395	2,311	5,706
Marketing	740	1,457	2,197
Others	1,561	691	2,252
Total	16,803	13,090	29,893

(a) Excludes exploration expenses and lease rentals charged to income account.

By Area –	1978	1977	1976	1975
	Million Dollars			
United States	16,803	16,621	16,664	14,410
Canada	2,386	2,314	1,830	1,527
Venezuela	0	10	6	21
Other Western Hemisphere	734	488	525	827
Western Hemisphere	19,923	19,433	19,025	16,785
Europe	7,191	6,495	5,732	5,347
Africa	1,122	885	842	791
Middle East	428	295	377	363
Far East	1,229	893	850	1,762
Eastern Hemisphere	9,970	8,568	7,801	8,263
Total	29,893	28,001	26,826	25,048

8 Capital and Exploration Expenditures Year 1978

	United States	Other Countries	Combined
	Million Dollars		
Production Expenditures*	8,760	6,994	15,754
Dry Holes	1,306	1,018	2,324
Total	10,066	8,012	18,078
Geological and Geophysical Expenses and Lease Rentals	1,312	962	2,274
Total Production and Exploration Cost	11,378	8,974	20,352
Other Capital Expenditures	6,737	5,078	11,815
Other Mining Expenses	166	91	257
Capital and Exploration Expenditures	18,281	14,143	32,424

*Excludes expenditures for Natural Gasoline Plants.

SECTION TWO — CURRENT DATA

9 Balance Sheet

Assets	12/31/78	12/31/77	12/31/78	12/31/77
	Million Dollars		Percent Distribution	
Current Assets	107,416	99,149	39.0	39.9
Investments and Advances	15,199	15,286	5.5	6.1
Property, Plant and Equipment (a)	147,147	128,555	53.5	51.7
Other Assets	5,528	5,758	2.0	2.3
Total Assets	275,290	248,748	100.0	100.0
Liabilities and Net Worth				
Current Liabilities	80,691	71,745	29.3	28.8
Long-Term Debt	40,645	39,914	14.8	16.1
Deferred Credits	18,029	15,683	6.5	6.3
Other Reserves	10,470	6,731	3.8	2.7
Minority Interests	7,035	4,676	2.6	1.9
Net Worth:				
Preferred Stock	234	277	0.0	0.1
Common Stock	12,617	12,242	4.6	4.9
Capital Surplus	9,807	9,617	3.6	3.9
Earnings Reinvested in Business	95,762	87,863	34.8	35.3
Shareholders' Equity	118,420	109,999	43.0	44.2
Total Liabilities and Net Worth	275,290	248,748	100.0	100.0

(a) After deducting accumulated reserves of $94,355 million in 1978 and $82,190 million in 1977.

10 Earnings Reinvested and Employed

	Million Dollars
Balance at December 31, 1977	87,863
Add: Net Income	15,017
	102,880
Less: Cash Dividends	6,689
Stock Dividends	24
Other Charges	405
Balance at December 31, 1978	95,762

11 Net Assets Year 1978

	United States	Other Countries	Combined
	Million Dollars		
Working Capital	15,689	11,036	26,725
Investments and Advances	4,025	11,174	15,199
Property, Plant and Equipment (a)	86,883	60,264	147,147
Other Assets	2,486	3,042	5,528
	109,083	85,516	194,599
Less: Long-Term Debt	27,803	12,842	40,645
Other Reserves and Credits	14,906	13,593	28,499
Minority Interests	3,607	3,428	7,035
Preferred Stock	179	55	234
Total Net Assets	62,588	55,598(b)	118,186
Percent Distribution			

(a) After deducting accumulated reserves of $58,976 million for United States facilities and $35,379 million for facilities of other countries.

(b) Distribution by areas:

	Million Dollars	Percent of Total
Western Hemisphere	14,179	25.5
Eastern Hemisphere	41,419	74.5
Total	55,598	100.0

12 Working Capital

	12/31/78	12/31/77	Change	12/31/78	12/31/77
	Million Dollars			Percent Distribution	
Cash	13,552	9,973	+3,579	12.6	10.1
Marketable Securities	10,960	10,507	+ 453	10.2	10.6
Accounts and Notes Receivable (net)	47,461	42,363	+5,098	44.2	42.7
Inventories:					
Crude Oil, Refined Products and Other Merchandise	30,353	31,562	−1,209	28.3	31.8
Materials and Supplies	3,769	3,441	+ 328	3.5	3.5
All Other	1,321	1,303	+ 18	1.2	1.3
Total Current Assets	107,416	99,149	+8,267	100.0	100.0
Accounts Payable	49,683	44,581	+5,102	61.6	62.1
Notes and Loans Payable	11,100	10,671	+ 429	13.7	14.9
Income and Other Taxes	11,623	9,170	+2,453	14.4	12.8
All Other	8,285	7,323	+ 962	10.3	10.2
Total Current Liabilities	80,691	71,745	+8,946	100.0	100.0
Working Capital	26,725	27,404	− 679	—	—
Ratio of C.A. to C.L.	1.33	1.38	—	—	—

13 Investment in Fixed Assets December 31, 1978

By Function —	Gross			Net		
	United States	Other Countries	Combined	United States	Other Countries	Combined
	Million Dollars			Million Dollars		
Production:						
Crude Oil and Natural Gas	69,260	34,679	103,939	37,180	24,840	62,020
Natural Gas Liquids Plants	3,578	2,042	5,620	1,741	1,316	3,057
Total	72,838	36,721	109,559	38,921	26,156	65,077
Transportation:						
Pipe Lines	12,969	934	13,903	10,407	517	10,924
Marine	1,610	11,038	12,648	1,083	7,516	8,599
Other	1,763	418	2,181	952	266	1,218
Total	16,342	12,390	28,732	12,442	8,299	20,741
Refineries and Chemical Plants	35,071	26,634	61,705	21,168	14,504	35,672
Marketing	11,963	17,148	29,111	7,376	9,381	16,757
Others	9,645	2,750	12,395	6,976	1,924	8,900
Total	145,859	95,643	241,502	86,883	60,264	147,147

By Area —	12/31/78		12/31/77	
	Gross	Net	Gross	Net
	Million Dollars		Million Dollars	
United States	145,859	86,883	131,065	78,267
Canada	16,476	10,728	14,339	9,131
Venezuela	11	3	37	20
Other Western Hemisphere	5,621	3,009	5,525	2,891
Western Hemisphere	167,967	100,623	150,966	90,309
Europe	57,721	37,434	46,718	30,855
Africa	5,679	3,482	4,883	2,896
Middle East	2,418	1,137	1,746	936
Far East	7,717	4,471	6,432	3,559
Eastern Hemisphere	73,535	46,524	59,779	38,246
Total	241,502	147,147	210,745	128,555

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